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SUBJECT: Economic and financial leaders debate Egypt's economic future

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Sensitive but unclassified. Please handle accordingly.

¶1. (SBU) Key Points:
* At the Ambassador-hosted Economic Roundtable, leading economic minds in Egypt believe that sound macroeconomic policies have contributed to Egypt's 7% growth the last several years.
* The Roundtable believed that Egypt will weather the current economic downturn better than most regional peers.
* The Roundtable expressed concern that the reform mentality of the government of Egypt has begun to wane.

¶2. (SBU) Summary: Continuing with recent practice (reftel), the Ambassador invited a diverse group of financial business leaders and economic thinkers to an Economic Roundtable to discuss Egypt's current economic situation and its future. The group included the World Bank's Chief Economist for Egypt, three banking CEOs, an economics professor from Cairo University, the executive director of a leading think tank, an advisor to the investment authority, and a partner at a law firm who is also a former AmCham President. While all felt secure in noting that Egypt would continue to weather the current global recession, the deeper the discussion progressed, the more vocally participants expressed real concerns about Egypt's investment climate, the deterioration of the reform agenda, and the deeper structural problems which persist. End Summary.

¶3. (SBU) There was general agreement that the global crisis is easing and that the situation is improving in Egypt as well. The group generally agreed that the 4.7% GDP growth target for the year was feasible and that Egypt's financial system remains as sound as it has ever been. All acknowledged some of Egypt's basic economic indicators had suffered during the global recession, particularly noting the reduction in: FDI, trade, tourist arrivals, and Suez Canal receipts. The group emphasized that Egypt is not in crisis, but that the priority for Egyptian policy makers should be the longer-term structural problems that constrain growth and which have plagued Egypt for years.

¶4. (SBU) The group was generally complimentary of the Central Bank of Egypt's (CBE) handling of monetary policy, pointing to the generally stable foreign exchange rate. Several pointed out that while net international reserves have fallen (from about $35 billion at their peak last year to about $32 billion now), they remain healthy and it is reasonable for the reserves to deteriorate somewhat in the given circumstances. Most felt that the CBE intervention had been modest and warranted. None expressed concerns

that a run on the currency was likely or that there was risk of a precipitous fall in the level of gross international reserves. World Bank Chief Economist Santiago Hererra, however, noted that monetary policy has suffered from a lack of transparency. He cited the CBE's selling of some of its holdings at commercial banks as an example of the CBE's opaqueness in monetary dealings. (Note: Given the lack of significant movement of the Egyptian pound in recent months vis a vis other emerging markets, the pound is stronger than its regional competitors, therefore making Egyptian exports less competitive.)

¶5. (SBU) The discussion of the Egyptian fiscal stimulus was wide ranging. Several felt that the 15 billion LE (US$ 2.7 billion) which was approved several months ago has not been enough. Several argued that to truly be counter-cyclical, Egypt should be buying as much as possible now and investing into infrastructure at a much faster rate if it was to truly "benefit from the crisis." Yet, at the same time, no one in the room could point to anything specific that the stimulus money had done or any data on jobs created or saved as a result of government interventions. Further, there did not seem to be any expectation that the government would provide any accounting for its stimulus spending. While the group generally wanted more money spent, most seemed to believe that the GOE is relatively inept at spending its infrastructure investments, and that the GOE cannot build any public good quickly, thus largely defeating the purpose of stimulus spending.

¶6. (SBU) The World Bank Chief Economist reminded the group that the GOE has a budget deficit of 8%, so to significantly increase spending on poorly and slowly implemented infrastructure projects would only exacerbate that problem and may not result in the desired increase in demand. He reminded the group that subsidies and public sector wages still dominate the government's budget so there is very little room to spend more, without running up the deficit. Other participants seemed less concerned about the high deficits and were willing to take on higher debts to fund such extraordinary spending.

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